



Is the Recession Easing Up?

A recession losing its grip does not mean a recession gone

There is much talk in the media that the recession is beginning to loosen its grip on the nation's economy. It is still too early to definitively say the recession is easing, but the fact that there are currently conflicting signals about the economy in the various statistics is probably a signal in and of itself that the recession is losing its grip.

Historically, when one follows the cycle of a recession, in the initial and developing stages there are basically no economic variables sending any type of positive signal. It is quite clear that all things are negative. But once a recession approaches or even reaches its eventual bottom, history shows the economic signals become mixed. Some begin pointing up; others keep pointing down. That appears to be the current message from the national economic landscape.

The housing market was both a starting point and a major casualty of this recession. Yet, recent data suggests that the worst for this industry is now behind us. Sales of both new and existing homes are beginning to rise once again, and the home-price slide seems to have stabilized.

Another factor is the second-quarter performance of the Gross Domestic Product (GDP). Though it still produced a fourth quarter in a row of declining GDP, the decline was not as deep as anticipated. Most analysts are expecting a positive GDP number for the third quarter of 2009. Business inventories are way down and appear to need replenishing.

In fact, this inventory shortfall is the main variable driving many economic analysts to assume that there will be GDP growth in the second half of 2009.

Then there are the signals from the down side. Unemployment claims are still high, though trending downward. Job losses are still being counted on a monthly basis by the Bureau of Labor Statistics, and the unemployment rate is still trending higher and expected to keep going higher.

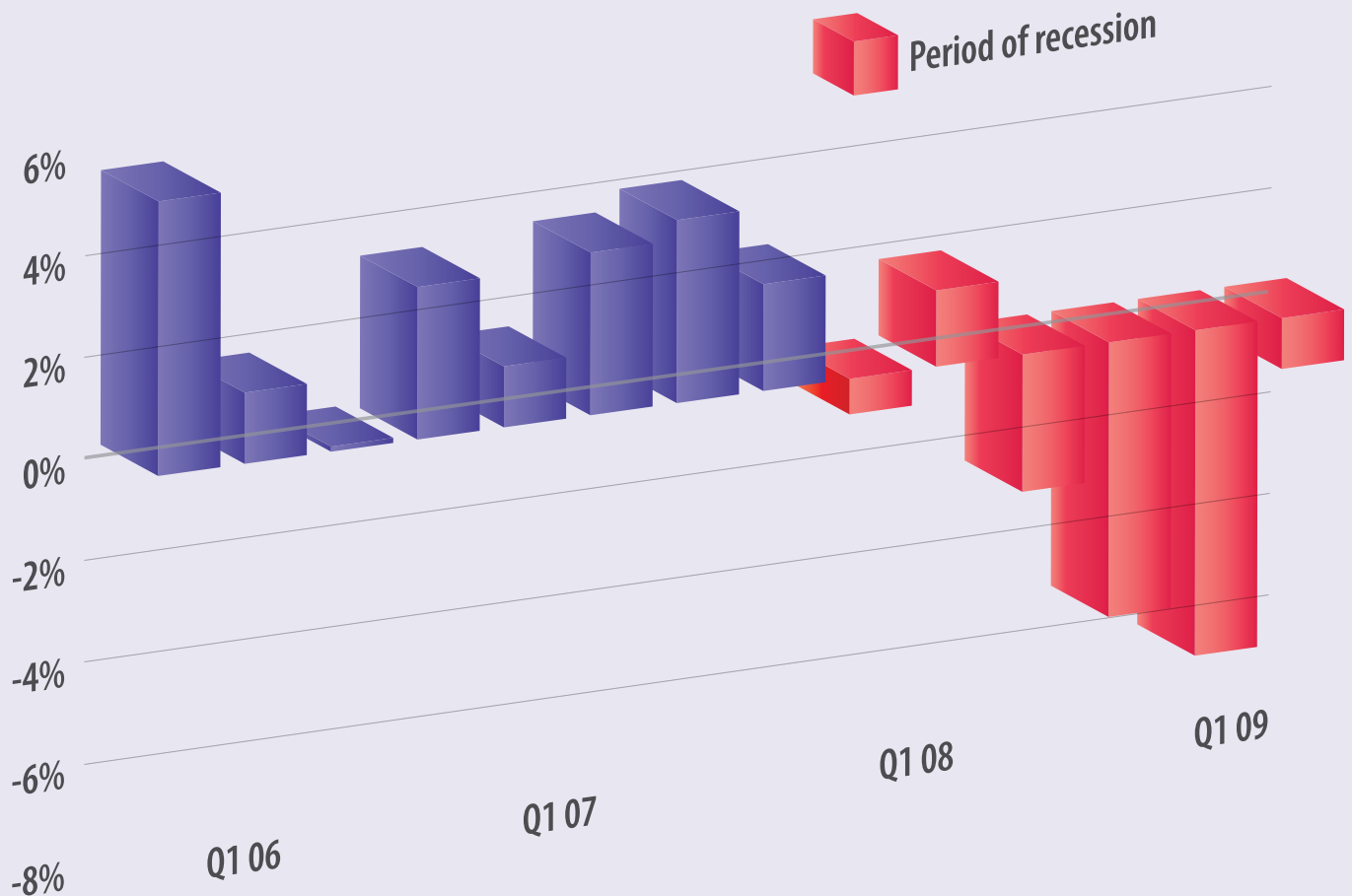
In a recession, unemployment will actually be one of the last indicators to shift from negative to positive. This has also been observed in past recessions. Particularly deep recessions, like this one, produce many discouraged workers—those who have lost a job and have also given up looking for a new job. Therefore, they are not officially counted as unemployed. But when many of these idle laborers sense that the economy is improving and that they may now be able to find a job, they become active again in the labor force. When they do, they become classified as unemployed. So this actually causes the unemployment rate to rise even further, putting a final spike on that variable's long recessionary rise.

The recession does appear to be losing its grip. But does that mean the recession is over? It's tempting to say that it is, but a recession losing its grip does not have to mean a recession gone. If nothing else, though, loosening its grip is the first step in the right direction. ●



U.S. Gross Domestic Product

Percent Change from Preceding Quarter*



Source: U.S. Bureau of Economic Analysis

* Chain-weighted 2005 dollars